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C O N F I D E N T I A L SECTION 01 OF 04 BAMAKO 000520

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SUBJECT: PROSPECTORS PREDICT MALIAN OIL BY 2008

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Classified By: Rebecca Jovin, Political Officer, U.S. Embassy
Bamako, for E.O. 12958, Reasons 1.4 (b) and (d).

¶1. (C) Summary: One and a half years after oil and gas exploration in northern Mali resumed, those searching for black gold may be on the brink of success. To date, the Malian government has opened approximately 700,000 square kilometers of land to oil prospecting. Recent estimates by Australian-owned Baraka Petroleum, which leads the race for Malian oil, suggest that oil may be flowing by the barrel from Mali no later than 2008. For landlocked and poverty-stricken Mali, oil reserves could mean a considerable economic boost. With oil prospecting centered on Mali's politically fragile northern regions, many see a real opportunity for economic diversification, development and growth. At the same time, however, some have serious doubts about the economic viability of extracting oil and gas from Mali's isolated North and further fear that the discovery of oil could upset the already delicate balance between Mali's central government and the Tuareg populations of the North. End summary.

A FRESH START FOR MALI'S OIL EXPLORATION EFFORTS

¶2. (U) The Malian government has worked feverishly since 2004 to revive oil exploration and join the club of West African oil producing nations. The 2004 adoption of a new hydrocarbon code, the delineation of some 700,000 sq. kilometers of prospecting land throughout northern Mali, and the creation of a national oil research and exploration authority (AUREP) under the Ministry for Mines, Energy, and Water, have greatly accelerated exploration activities. Since its inception, AUREP has managed to attract five major oil investors, most notably Max de Vietri's Baraka Petroleum Limited. Baraka has production-sharing agreements with the Malian government for five of the total 18 designated prospecting blocks. De Vietri, Baraka's CEO and Managing Director, has more than 10 years of oil exploration experience in West Africa and is already successfully extracting oil in Mauritania's offshore area of Chinguetti.

¶3. (U) The exploration blocks set by AUREP are concentrated

in five major areas, the largest being the Taoudenni Basin, which is located north of Timbuktu and covers an area of several hundred thousand square kilometers across the Mauritanian-Malian border. Additional blocks are situated in the Nara Trough, which extends north to south between Timbuktu and Segou; the Gao Graben in central Gao region; and the Tamesna and Iullemeden Basins, which together cover the eastern part of the Kidal and Gao regions and stretch across the Niger-Mali border. To date, Mali has signed production-sharing agreements for 11 of the 18 blocks, with two Taoudenni blocks currently under application. The vacant blocks include two additional blocks in the Taoudenni Basin, one in the Iullemeden Basin, and two in the Macina Delta at the southern-most extension of the Nara Trough.

AUSTRALIAN BARAKA LEADS THE WAY

¶4. (U) Leading the race for Malian oil is de Vietri's Baraka Petroleum Limited. The Australian company was the first to sign production-sharing agreements with the Malian government in the fall of 2004, resurrecting the quest for hydrocarbons in Taoudenni after some two decades of neglect. Of the five oil companies currently conducting exploration activities in Mali, Baraka Petroleum's subsidiary, Baraka Mali Operations Limited, has the largest share of prospecting licenses. Its five blocks (numbers 1, 2, 3, 4, and 9) total 193,200 square kilometers of Mali's Taoudenni Basin. Baraka is also conducting oil exploration in two blocks on the Mauritanian side of the Taoudenni basin, giving the company exploration and development rights over a total of 272,000 square kilometers. During the initial four-year term of Baraka's prospecting licenses, the company will invest an estimated USD 51.7 million in exploration and drilling activities. According to the licenses, which outline the conditions for

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recovery of costs and production-sharing between the Malian government and the license holder, a well must be established in each block within four years. Two wells already exist in Baraka-owned blocks 2 and 3. Wells also exist in blocks 14 and 15 along the Niger border and in block 11 in the Gao region.

¶5. (U) In 2005, two other Australian firms, Trans Ocean Securities and Sphere Investments, joined the list of oil prospectors operating in Mali. Mali Oil Development, which is the majority owned by Trans Ocean Securities, acquired block 11 in Gao and intends to spend USD 10.4 million in exploration activities over four years. Mali Petroleum, 95% owned by Sphere Investments, acquired exploration rights for block 8 in Taoudenni and block 10 in Gao. Mali Petroleum intends to spend USD 24.4 million in research and drilling. In late 2005, the South African company Energem acquired exploration rights for USD 23.7 million worth of research and drilling in blocks 12 and 13 in the Nara Trough south of Timbuktu. Another South African firm, Energetic Petroleum, intends to spend USD 12.5 million for exploration in block 14 in the Tamesna Basin near the border with Niger.

¶6. (U) According to company and press reports, Baraka's geological and seismic studies in Taoudenni have yielded encouraging results. These studies mark the first comprehensive reviews of the Taoudenni Basin. Baraka is now conducting a USD 3.7 million airborne survey of its blocks through the New Zealand-based company Kiwi Air. The survey is currently scheduled for completion in August 2006, followed by what will likely be another month of data analysis. Though the research has not yet reached the end stage, Baraka is optimistic about the prospects for oil and gas discovery in the region. In a March 2006 report, the company announced that it had identified "large hydrocarbon prospective trends" in the Basin. According to Baraka officials, the preliminary results suggest similarities between Taoudenni's features and those of the Ahnet and

Illizi Basins in neighboring Algeria. The Ahnet and Illizi Basins currently produce approximately 1.23 million barrels of crude oil and 445,000 barrels of condensate per day. Baraka has identified a total of 40 oil and gas leads requiring further analysis in the surveyed area. Estimates suggest that Mali could be looking at roughly 900 million barrels in oil reserves to be extracted over a period of 25 years from the Taoudenni basin.

17. (C) In the race for Malian oil, Baraka maintains a considerable lead over its competitors who are all still in the early research stages. In a recent meeting with PolOff, AUREP Director Mamadou Simpara expressed dissatisfaction with the work of the South African owned Energem group and indicated the possible termination of Energem's production-sharing agreement. (COMMENT: Thus far, we have received no indication that the Energem licenses have been revoked. END COMMENT) Simpara would not comment on Energetic Petroleum's performance, stating that it remains too early to determine how successful the company will be. Simpara noted the absence of American investors and stressed the need for Mali to work with credible oil exploration companies. According to Simpara, American-owned Vanco Energy initially expressed interest in several exploration blocks but withdrew after learning that the blocks had already been acquired by other competitors. Simpara also raised the possibility of holding an investors' conference in the United States on Mali's oil exploration prospects, though a date for the conference has not yet been set.

MALIAN AND BARAKA OFFICIALS INCREASINGLY CONFIDENT

18. (C) While it is still too early to celebrate, the Malian government and its oil investors have become increasingly public with their confidence in the imminent discovery of Malian oil reserves. At an October 2005 conference to mark the signing of the first production-sharing agreement between Baraka and the AUREP, conference participants called Mali an opportunity that has only just been discovered by the world.8 In late April 2006, Baraka CEO de Vietri met with

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Prime Minister Ousmane Issoufi Maiga to discuss progress on the oil exploration front. De Vietri later reiterated his confidence in Mali's oil potential on national television. Kiwi Air has privately echoed Baraka's conviction in discussions with Embassy officials. Confidence levels at Baraka appear so high that de Vietri invited the Malian Minister for Mines, Energy, and Water, Ahmed Diane Semega, to travel to the North to survey the situation personally. According to press reports, the Minister returned from the Tamasna and Taoudenni Basins on April 26 with great optimism and enthusiasm. Though no official numbers have been released, reports suggest that the Ministry is convinced of a considerable presence of oil and gas reserves. De Vietri has repeatedly said that he expects oil to be flowing from fields in northern Mali by 2008.

COMMENT

19. (C) The discovery of oil and gas reserves undoubtedly has the potential to transform the Malian economy. The country spends hundreds of millions of dollars on oil imports each year, amounting to approximately 20 percent of all imports. In meetings with Embassy officials, AUREP Director Simpara and government representatives in the North have been quick to note the potential benefits of oil exploitation, in particular for Mali's poverty-stricken northern population. Many northerners see oil discovery not only as a potential boost for Mali's national economy, but as a chance to generate local employment and infrastructure development.

¶10. (C) However, not everyone is as optimistic. According to a senior official at TOTAL Mali, the economic viability of extracting oil and gas from the geographically isolated areas of Mali's North is questionable at best. Many consider Mali's investment climate to be inhospitable. Furthermore, at an estimated USD 4 million per kilometer of pipeline, it will be difficult for the GOM to attract investors willing to absorb the high costs associated with the construction and securing of pipelines stretching all the way to the Mauritanian or Algerian coasts. Regional political instability and terrorist activities in neighboring countries are also significant impediments to extracting and transporting oil from what is already one of the most inhospitable climates on earth. There is also the risk that a change in government could mean the expropriation, in whole or in part, of a company's assets or an entire industry. Any profitable venture therefore hinges heavily on the discovery of significant reserves, continued high oil prices, and positive investor assessments of the risks associated with investment in a historically unstable neighborhood. Under these circumstances, it is plausible that Mali, at the end of the day, may end up with merely a comprehensive geological study to add to the new AUREP archives rather than the hoped for cash cow.

¶11. (C) Having followed the history of oil discoveries in Africa, Malians are well aware of the dangers associated with oil production. In the politically fragile regions of northern Mali, the discovery of oil has the potential to either help resolve long-standing inequalities or further exacerbate them. Due to widespread unemployment, poverty, and poor infrastructure, many northerners regard the GOM's commitment to the people of northern Mali with skepticism. In recent weeks, references to increased autonomy⁸ for northern Mali have resurfaced. Most believe that these references are likely inspired, at least in part, by the increased pace of oil prospecting in the region (septel).

¶12. (C) Oil exploration and the future development of northern Mali are inextricably linked. Absent tangible social and economic benefits, few in the North are likely to embrace the expanded presence of security forces that would invariably accompany the exploitation of reserves from oil fields in the north. Recent posturing regarding greater northern autonomy suggests that, even though no oil is expected to flow until 2008 at the earliest, the GOM may need to begin taking steps now to convince Tuaregs of its commitment to northern development and the transparent

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distribution of oil money.
McCulley